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FISCAL IMPACT STATEMENT

LS 7025

BILL NUMBER: SB 444

NOTE PREPARED: Feb 6, 2007

BILL AMENDED: Jan 29, 2007

SUBJECT: Property Tax deductions.

FIRST AUTHOR: Sen. Riegsecker

FIRST SPONSOR: Rep. Klinker

BILL STATUS: As Passed Senate

FUNDS AFFECTED: **GENERAL**
 X DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) For property taxes payable in 2008 and thereafter, this bill increases the assessed value limitations for the deduction for persons at least 65 years of age and certain veterans deductions.

Effective Date: January 1, 2007 (retroactive).

Explanation of State Expenditures: (Revised) This bill increases the assessed valued limitations for the aged deduction, disabled veterans and WWI veterans or surviving spouses. For those individuals over 65 (senior citizens) who currently get the aged deduction, the assessed value limit increases from \$144,000 to \$165,000; the assessed value limit for disabled veterans increases from \$113,000 to \$125,000; the limit for WWI veterans or surviving spouses increases from \$163,000 to \$185,000. These increases apply to property taxes payable in CY 2008 and after.

Subject to appropriation, the state pays Property Tax Replacement Credits (PTRC) in the amount of 60% of school General Fund levies attributable to all property. The state also pays 20% of the portion of operating levies (including the remaining 40% of the school GF levy) that are attributable to real property and non-business personal property. Homestead credits are paid by the state in the amount of 20% of the net property tax due for qualifying funds on owner-occupied residences. PTRC and homestead credits are paid from the Property Tax Replacement Fund.

Aged deduction: Annual state PTRC and homestead payments will be reduced. The total net state savings is estimated at \$28,000 in FY 2008 (partial year) and \$70,000 in FY 2009.

Disabled Veterans: The total net state savings is estimated at \$4,000 in FY 2008 (partial year) and \$10,000

in FY 2009.

World War I Veterans: The total net savings is minimal as there are no World War I veterans in Indiana.

The total net state savings because of all the AV assessment increases will be approximately \$32,000 in FY 2008 (partial year) and \$80,000 in FY 2009.

Explanation of State Revenues: The state levies a tax rate for State Fair and State Forestry. Any reduction in the assessed value base will reduce the property tax revenue for these two funds. The revenue reduction is estimated at about \$925 for the increasing the aged deduction assessment limit, \$131 for the disabled veteran limit, and zero for the World War I veteran limit. The total revenue reduction will be approximately \$1,056.

Explanation of Local Expenditures: Forty-four counties currently provide additional homestead credits that are paid with proceeds from the local option income taxes (LOIT). These credits will decline by approximately \$18,000 in CY 2008: \$16,000 because of the increase in the assessment limit for senior citizens, \$2,000 because of the increase in the assessment limit for disabled veterans, and zero for the increase in World War I veteran limit. LOIT proceeds that are not used for county homestead credits are distributed to civil taxing units as certified shares.

Explanation of Local Revenues: (Revised) Under current law, persons 65 or over (senior citizens) or their surviving spouses may receive an assessed value (AV) deduction on their real property or mobile home residence equal to one-half the assessed value of the property up to \$12,480. In order to qualify, the assessed value of the property may not exceed \$144,000 and the adjusted gross income of the taxpayer may not exceed \$25,000. This bill increases assessed value limit to \$165,000 for property taxes payable in CY 2008 and after.

Totally disabled veterans or surviving spouses are entitled to a property tax deduction of \$12,480 on their real or personal property. In order to qualify the disabled veteran must be honorably discharged, must either be totally disabled or at least 62 with a disability of 10 percent or more; additionally the assessed value of the property must be less than \$113,000. This bill increases the maximum assessed value to \$125,000 for property taxes payable in CY 2008 and after.

WW I veterans may receive an assessed value (AV) deduction on their principal residence equal to \$18,720. In order to qualify, the assessed value of a veteran's home may not exceed \$163,000. This bill increases the assessed value limit to \$185,000 for property taxes payable in CY 2008 and after.

This analysis assumes that all taxpayers who qualify for any of these deductions under current law are currently taking them; it also assumes that all the potentially additional taxpayers covered under this proposal would claim any applicable deductions.

Aged deduction: Estimates derived from income tax data indicate that this proposal will enable an additional 3,100 senior citizens and surviving spouses to claim this deduction in CY 2008. They will pay approximately \$548,000 less in taxes for an average net tax reduction of \$178 per taxpayer. At a maximum of \$12,480 per qualifying senior citizen household, this deduction will potentially reduce the tax base by \$38.5 M AV. This reduction in the tax base will cause a shift of property tax burden to all taxpayers in the form of an increase in the statewide average gross tax rate of about \$0.00024 in CY 2008. This translates to a property tax shift of \$634,000 to all other classes of property. This number exceeds the \$550,000 in tax savings to senior citizen taxpayers because the tax base for all other classes of property includes some property that does not

qualify for homestead credits or the regular 20% PTRC. Senior citizen households, on the other hand, comprise only homesteads which qualify for these credits.

Disabled Veterans: Due to lack of pertinent data, only a very general estimate of the disabled veterans that this proposal would benefit could be computed. As a result, these current estimates should be interpreted with caution. Using the most current parcel level data and the US Census bureau and extrapolating the results over the disabled veteran population, it is estimated that this proposal will enable an additional 440 disabled veterans to claim this deduction. They will pay approximately \$78,000 less in taxes in CY 2008 for an average net tax reduction of \$178 per taxpayer. At a maximum of \$12,480 per qualifying disabled veteran, this deduction will potentially reduce the tax base by \$5.5 M AV. This reduction in the tax base will cause a shift of property tax burden to all taxpayers in the form of an increase in the statewide average gross tax rate of about \$0.00003 in CY 2008. This translates to a property tax shift of \$90,000 to all other classes of property. This number exceeds the \$78,000 in tax savings to disabled veteran taxpayers because the tax base for all other classes of property includes some property that does not qualify for homestead credits or the regular 20% PTRC. Disabled veteran households, on the other hand, comprise primarily homesteads which qualify for these credits.

WWI Veterans: According Indiana Department of Veterans' Affairs there are no World War I veterans living in Indiana. As a result, there are no additional veterans who will qualify for the deduction under this bill and there is no fiscal impact because of this group of taxpayers.

Under this proposal the total net tax reduction to those additional taxpayers receiving the deductions would be approximately \$626,000; the total reduction in the tax base would be approximately \$44 M. This reduction in the tax base will cause a shift of property tax burden to all taxpayers in the form of an increase in the statewide average gross tax rate of about \$0.00028 in CY 2008. This translates to a property tax shift of \$724,000 to all other classes of property.

This analysis assumes that all taxpayers who would qualify for the deductions under this bill will actually claim it. If, however, these conditions change then the fiscal impact might be different from the results presented here. For example, if some individuals who qualified any of the deductions under current law but did not claim them, decide to do so under this proposal then the impact on State and Local revenues and expenditures will be correspondingly larger. On the other hand, if some applicable taxpayers under this proposal do not apply for the deduction, then this would have a smaller impact on State and Local revenues and expenditures.

Total local revenues, except for cumulative funds, would remain unchanged. The revenue for cumulative funds would be reduced by the product of the fund rate multiplied by the deduction amount applicable to that fund.

State Agencies Affected: Department of Local Government Finance; State Fair Board; DNR Division of Forestry.

Local Agencies Affected: County Auditors.

Information Sources: Bureau of the Census; Local Government Database; Indiana Department of Veterans' Affairs.

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